

**REPORT OF THE AUDIT OF THE
CUMBERLAND COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CUMBERLAND COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the Cumberland County Fiscal Court for fiscal year ended June 30, 2004.

The financial statements of Cumberland County Hospital Association, Inc., a discretely presented component unit, has been prepared under accounting principles generally accepted in the United States of America, which is inconsistent with the basis of accounting Cumberland County, Kentucky, uses to prepare its financial statements. As a result, we have issued a qualified opinion on the discretely presented component unit.

We have issued unqualified opinions, based on our audit, on the governmental activities, each major fund, and aggregate remaining fund information financial statements of Cumberland County, Kentucky.

Financial Condition:

The fiscal court had unrestricted net assets of \$403,819 in its governmental funds as of June 30, 2004, with total net assets of \$1,142,684. The fiscal court's discretely presented component unit had net assets of \$4,008,209 as of June 30, 2004. The discretely presented component unit had net cash and cash equivalents of \$2,098,264. The fiscal court had total debt principal as of June 30, 2004 of \$6,055,236 with \$255,112 due within the next year. The discretely presented component unit had total debt principal as of June 30, 2004 of \$2,219,000 with \$73,000 due within the next year.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

The component units' deposits were uninsured and uncollateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Tim Hicks, Cumberland County Judge/Executive
Members of the Cumberland County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Cumberland County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise Cumberland County, Kentucky's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Cumberland County, Kentucky's, management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the Cumberland County Hospital Association, Inc., a discretely presented component unit. Those financial statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented opinion unit is based on the report of the other auditors. Those financial statements reflect 100% of assets and revenues of the discretely presented component unit opinion unit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Cumberland County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements of the Cumberland County Hospital Association, Inc., a discretely presented component unit, is presented according to accounting principles generally accepted in the United States of America. This basis of accounting is different from the modified cash basis of accounting in that certain accruals of assets, liabilities, revenues, and expenses are made to the financial statements of the Cumberland County Hospital Association, Inc. that are not recognized under the modified cash basis of accounting used in preparing the financial statements of Cumberland County, Kentucky.

The amounts by which these departures affect the assets, liabilities, revenues, and expenses of the financial statements are 44.7%, 25.5%, 18.7%, and 8.1%, respectively.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
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Honorable Tim Hicks, Cumberland County Judge/Executive
Members of the Cumberland County Fiscal Court

In our opinion, based on our audit and the report of other auditors, except for the effects of the departures discussed in the preceding paragraph, the financial statements referred to above, present fairly, in all material respects, the financial position of the discretely presented component unit of Cumberland County, Kentucky, as of June 30, 2004, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting as described in Note 1.

In addition, in our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cumberland County, Kentucky, as of June 30, 2004, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting as described in Note 1.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The management's discussion and analysis, and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cumberland County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 30, 2005, on our consideration of Campbell County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 30, 2005

CUMBERLAND COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Tim Hicks	County Judge/Executive
Thomas J. Brown	Magistrate
Edward Anderson	Magistrate
James V. Groce	Magistrate
Dewey Earl Branham	Magistrate

Other Elected Officials:

Lindsey Bell	County Attorney
Rondall Wray	Jailer
Lynn Cyphers	County Clerk
Hazel Jones	Circuit Court Clerk
James Pruitt	Sheriff
Gina Shaye Watson	Property Valuation Administrator
Gary White	Coroner

Appointed Personnel:

Stacey Thrasher	County Treasurer
Stacey Thrasher	Occupational Tax Collector
Eugenia Ferguson	Finance Officer

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MAGISTRATES:
Dist. 1 Thomas Brown
Dist. 2 Edward Anderson
Dist. 3 J.V. Groce
Dist. 4 Earl Branham

Cumberland County Judge Executive

TIM HICKS

P.O. BOX 826 • BURKESVILLE, KY 42717-0826
OFFICE: 270-864-3444 • FAX: 270-864-1757 • HOME: 270/433-6477

DEPUTY JUDGE
Eugenia Ferguson

COUNTY TREASURER
Stacey Thrasher

Management's Discussion and Analysis

June 30, 2004

The financial management of Cumberland County, Kentucky offers readers of Cumberland County's financial statements this narrative overview and analysis of the financial activities of Cumberland County for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights.

- Cumberland County had net assets of \$1,142,684 as of June 30, 2004. The fiscal court had unrestricted net assets of \$403,819 in governmental activities as of June 30, 2004. Total debt for governmental activities as of June 30, 2004 was \$6,055,236 with \$255,112 due within one year.
- The governmental activities total net assets decreased by \$33,625 from the prior year. This decrease is primarily due to depreciation expense.
- At the close of the current fiscal year, Cumberland County governmental activities reported current assets of \$1,654,154. Of this amount, \$403,819 is available for spending at the government's discretion (unreserved fund balance).
- Cumberland County's total indebtedness at the close of fiscal year June 30, 2004 was \$6,055,236, of which \$5,800,124 is long-term debt (due after 1 year) and \$255,112 is short-term debt (to be paid within 1 year). Debt additions were \$450,683, and debt reductions were \$39,716 for a net increase of \$410,967 for the year. This increase was primarily due to the Cumberland County Public Properties Corporation's, issuance of Lease Revenue Bonds, Series 2004, for the construction of the Cumberland County Justice Center.

Overview of the Financial Statements.

This management discussion and analysis is intended to serve as an introduction to Cumberland County's basic financial statements. Cumberland County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. The schedules include prior and current comparisons of general revenues by major source, and program expenses by function. This is the first year of implementation and these schedules will be presented next year.

Cumberland County
Management's Discussion and Analysis
June 30, 2004
(Continued)

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Cumberland County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Cumberland County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Cumberland County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or significant portion of their costs through user fees and charges (*business-type activities*). Cumberland County's governmental activities include general government, protection to persons and property, general health and sanitation, social services, recreation and culture, transportation facilities and service, roads, debt service, and capital projects. Cumberland County does not have a business type activity

The government-wide financial statements include not only Cumberland County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County. Cumberland County has one such entity described as a major Discretely Presented Component Unit, which is the Cumberland County Hospital Association, Inc.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Cumberland County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Cumberland County are *governmental funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

**Cumberland County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Governmental Funds. (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Cumberland County maintains (8) eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

Major Funds:

- General Fund
- Road Fund
- Cumberland County Public Properties Corporation Justice Center Construction Fund

Non-major Funds:

- Jail Fund
- Local Government Economic Assistance Fund
- Grant Fund
- Fire Protection Fund
- Cumberland County Public Properties Corporation Justice Center Bond Fund

Cumberland County adopts an annual appropriated budget. A budgetary comparison statement has been provided for the General Fund and Road Fund to demonstrate compliance with their budgets.

Discretely Presented Component Units. Component Units are operations for which the County has some financial accountability, but also have certain independent qualities as well. Component Units operate similarly to private sector businesses. Cumberland County has only one discretely presented component unit, the Cumberland County Hospital Association, Inc. This component units' financial information is included on the government-wide financial statements of statement of net assets and the statement of activities in a separate column.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Cumberland County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

**Table 1
Cumberland County's Net Assets**

**Governmental
Activities**

	2003	2004
Assets		
Current and other assets	4,460,701	1,654,154
Capital assets	2,359,876	5,543,766
Total Assets	6,820,577	7,197,920
Liabilities		
Current and other liabilities	0	255,112
Long-term liabilities	5,644,268	5,800,124
Total Liabilities	5,644,268	6,055,236
Net Assets		
Invested in capital assets, net of related debt	(3,284,392)	(511,470)
Restricted	4,134,278	1,250,335
Unrestricted	326,423	403,819
Total Net Assets	1,176,309	1,142,684

Changes in Net Assets.

Governmental Activities. Cumberland County's net assets decreased by \$33,625 in fiscal year 2004. Key elements of this are as follows:

- Current assets and cash decreased \$2,806,547, due to capital expenditures from Cumberland County Public Properties Corporation Justice Center Construction Fund.
- Capital assets increased \$3,183,890, due to Justice center construction in progress, and the inclusion of infrastructure (roads and bridges) capital assets of \$456,248, net of depreciation.
- Investment in capital assets and infrastructure, net of related debt increased by \$2,772,921 primarily due to construction in progress of the Justice Center as noted above and the inclusion of infrastructure (roads and bridges) capital assets.
- Current and long-term liabilities increased by \$410,968, due to additional debt.

**Cumberland County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Financial Analysis of the County's Funds.

As noted earlier, Cumberland County uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds Overview. The focus of Cumberland County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of June 2004 fiscal year, the combined ending fund balances of County governmental funds were \$1,654,154. Approximately 95% (\$1,569,346) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance (\$84,808) is reserved to indicate that it is not available for new spending because it is committed for the various encumbrances.

The County has (3) three major governmental, and (5) non-major funds.

Major Funds:

- General Fund
- Road Fund
- Cumberland County Public Properties Corporation Justice Center Construction Fund

Non-major Funds:

- Jail Fund
- Local Government Economic Assistance Fund
- Grant Fund
- Fire Protection Fund
- Cumberland County Public Properties Corporation Justice Center Bond Fund

1. The General Fund is the chief operating fund of Cumberland County. At the end of June 30, 2004 fiscal year, unreserved fund balance of the General Fund was \$118,173, while total fund balance was \$202,981. The County received \$492,764 in real and personal property, motor vehicle, occupational, and other taxes for approximately 66% of the county's general revenues. Various other service fees and miscellaneous revenues contribute to the remaining 34% of revenues.
2. The Road Fund is the fund related to County road and bridge construction and maintenance. The Road Fund had \$239,480 fund balance at June 30, 2004. The fiscal year 2004 expenditures for Road Fund were \$1,193,362.
3. The Cumberland County Public Properties Corporation Justice Center Construction Fund at the end of June 30, 2004, had a fund balance of \$1,164,718. These funds are restricted for capital construction of the Justice Center.
4. The Jail fund had a fund balance of \$12,446 as of June 30, 2004, an increase of \$3,194 over the previous fiscal year end.

**Cumberland County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Financial Analysis of the County's Funds. (Continued)

Governmental Funds Overview. (Continued)

5. The Local Government Economic Assistance Fund had a fund balance of \$20,860 as of June 30, 2004, an increase of \$1,886 over the previous fiscal year end.
6. The Grant Fund had a balance of \$1,649 as of June 30, 2004 and is used to account for federal or state monies received. The County received \$73,021 in funds for various projects.
7. The Fire Protection Fund had a fund balance of \$11,211 as of June 30, 2004, an increase of \$868 over the previous fiscal year end.
8. The Cumberland County Public Properties Corporation Justice Center Bond Fund had a fund balance of \$809 as of June 30, 2004. These funds are restricted for debt service.

General Fund Budgetary Highlights.

Cumberland County's General Fund budget was amended during the fiscal year increasing the budgeted amount by \$411,326. Budget amendments were made to various expenditures due to grants awarded in the fiscal year, surplus cash carried forward, short term borrowed money, and an increase in taxes revenue.

Actual revenues were \$185,144 short of the budget. This variance was due to a decrease in Intergovernmental Revenue and Miscellaneous Medical Enhancement Revenue, offset by an increase in tax revenue.

Capital Assets and Debt Administration.

Capital Assets. Cumberland County's investment in capital assets for its governmental activities as of June 30, 2004, amount to (\$5,543,766) (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings, other equipment, vehicles and equipment, current infrastructure (roads and bridges) additions, construction in progress for Justice Center construction. Cumberland County has elected to report infrastructure assets per GASB 34 provisions. Cumberland County has elected to report infrastructure capital assets (roads and bridges) as of July 1, 2003 and forward per GASB 34 provisions.

Major capital asset events during the 2004 fiscal year included the continued construction of the Justice Center.

Additional information of the County's capital assets can be found in Note 3 of this report.

**Cumberland County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Capital Assets and Debt Administration. (Continued)

**Table 2
Cumberland County's Capital Assets, Net of Accumulated Depreciation**

Governmental Activities		
	2003	2004
Infrastructure Assets	0	456,248
Land	575,314	607,558
Const. In Progress	1,321,331	3,976,119
Buildings	295,272	288,253
Other Equip.	135,337	173,418
Vehicles & Equip.	32,622	42,170
Total Net Capital Assets	2,359,876	5,543,766

Long-Term Debt. At the end of the 2004 fiscal year, Cumberland County had total bonded debt outstanding of \$6,055,236. The totals are as follows: Mortgage Revenue Bonds \$5,965,000, the County had one capital lease of \$63,256, and one other financing obligation of \$26,980.

Short-Term Debt. During the fiscal year 2004 the County had a total of \$327,000 in short term loans (Kentucky Advanced Revenue Program). As of June 30, 2004 these loans were repaid.

Other Matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2005 fiscal year budget:

- The 2005 fiscal year adopted budget continues most services at current levels.
- Program cuts at the State level, particularly relating to the cost of housing prisoners, may have a negative impact on funding for county programs.
- Economic factors indicate continued growth for Cumberland County.

Requests For Information.

This financial report is designed to provide a general overview of Cumberland County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Cumberland County Treasurer, PO Box 826, Burkesville, Kentucky 42717-0826.

Questions concerning the audit report of the Cumberland County Hospital Association, Inc. should be addressed to Kenneth Kimsal, Chief Financial Officer, P. O. Box 280, 299 Glasgow Road, Burkesville, Kentucky 42717.

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CUMBERLAND COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

CUMBERLAND COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	<u>Primary Government</u>	<u>Component Unit</u>
		Cumberland County Hospital Association, Inc.
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,654,154	\$ 2,098,264
Accounts Receivable		1,484,164
Supplies		222,121
Prepaid Expenses		127,946
Total Current Assets	<u>1,654,154</u>	<u>3,932,495</u>
Noncurrent Assets:		
Capital Assets - Net of Accumulated Depreciation		
Construction In Progress	3,976,119	15,342
Land and Land Improvements	607,558	262,310
Buildings	288,253	
Other Equipment	173,418	
Vehicles and Equipment	42,170	
Hospital Buildings and Equipment - Net Accumulated Depreciation		2,677,144
Infrastructure Assets - Net of Depreciation	456,248	
Total Noncurrent Assets	<u>5,543,766</u>	<u>2,954,796</u>
Total Assets	<u>7,197,920</u>	<u>6,887,291</u>
LIABILITIES		
Current Liabilities:		
Bonds Payable	210,000	73,000
Capital Lease Obligations Payable	22,044	
Financing Obligations Payable	23,068	
Accounts Payable		197,993
Accrued Interest Payable		55,475
Accrued Payroll and Taxes		296,946
Estimated Amounts Due To Third- Party Payers		109,668
Total Current Liabilities	<u>255,112</u>	<u>733,082</u>
Noncurrent Liabilities:		
Bonds Payable	5,755,000	2,146,000
Capital Lease Obligations Payable	41,212	
Financing Obligations Payable	3,912	
Total Noncurrent Liabilities	<u>5,800,124</u>	<u>2,146,000</u>
Total Liabilities	<u>6,055,236</u>	<u>2,879,082</u>

The accompanying notes are an integral part of the financial statements.

CUMBERLAND COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Cumberland County Hospital Association, Inc.</u>
NET ASSETS		
Invested in Capital Assets,		
Net of Related Debt	\$ (511,470)	\$ 735,796
Restricted For:		
Capital Projects	1,164,718	
Debt Service	809	513,414
Grant Projects	84,808	
Unrestricted	403,819	2,758,999
Total Net Assets	<u>\$ 1,142,684</u>	<u>\$ 4,008,209</u>

The accompanying notes are an integral part of the financial statements.

CUMBERLAND COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For the Fiscal Year Ended June 30, 2004

CUMBERLAND COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For the Fiscal Year Ended June 30, 2004

Functions/Programs Reporting Entity	<u>Program Revenues Received</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Primary Government:			
Governmental Activities:			
General Government	\$ 770,579	\$ 2,646	\$ 138,101
Protection to Persons and Property	248,288	14,219	117,081
General Health and Sanitation	65,772		5,290
Social Services	65,460		
Recreation and Culture	40,133		
Transportation Facilities and Service	3,752		
Roads	549,502		1,019,870
Debt Service	248,192		
Capital Projects	53,944		
	<u>2,045,622</u>	<u>16,865</u>	<u>1,280,342</u>
Total Governmental Activities	<u>2,045,622</u>	<u>16,865</u>	<u>1,280,342</u>
Total Primary Government	<u>\$ 2,045,622</u>	<u>\$ 16,865</u>	<u>\$ 1,280,342</u>
Component Units:			
Cumberland County Hospital Association, Inc.	\$ 8,131,747	\$ 7,756,264	\$

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Occupational Taxes

Other Taxes

Excess Fees

Unrestricted Investment Earnings

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

CUMBERLAND COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Fiscal Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues and Changes in Net Assets	
Primary	Component
Government	Unit
Governmental	Cumberland
Activities	County
	Hospital
	Association, Inc.
\$ (629,832)	\$
(116,988)	
(60,482)	
(65,460)	
(40,133)	
(3,752)	
470,368	
(248,192)	
(53,944)	
(748,415)	
(748,415)	
	(375,483)
89,482	
12,533	
28,203	
285,064	
110,964	
804	
89,585	35,481
97,352	190,495
803	
714,790	225,976
(33,625)	(149,507)
1,176,309	4,157,716
<u>\$ 1,142,684</u>	<u>\$ 4,008,209</u>

The accompanying notes are an integral part of the financial statements.

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CUMBERLAND COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

CUMBERLAND COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	General Fund	Road Fund	Cumberland County Public Properties Corporation Justice Center Construction Fund	Non- Major Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 202,981	\$ 239,480	\$ 1,164,718	\$ 46,975	\$ 1,654,154
Total Assets	<u>\$ 202,981</u>	<u>\$ 239,480</u>	<u>\$ 1,164,718</u>	<u>\$ 46,975</u>	<u>\$ 1,654,154</u>
FUND BALANCES					
Reserved for:					
Day Care Grant Project	\$ 84,808	\$	\$	\$	\$ 84,808
Unreserved:					
General Fund	118,173				118,173
Special Revenue Funds		239,480		46,166	285,646
Capital Projects Fund			1,164,718		1,164,718
Debt Service Fund				809	809
Total Fund Balances	<u>\$ 202,981</u>	<u>\$ 239,480</u>	<u>\$ 1,164,718</u>	<u>\$ 46,975</u>	<u>\$ 1,654,154</u>

Reconciliation of the Balance Sheet Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 1,654,154
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	5,969,977
Depreciation	(426,211)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	(90,236)
Bonded Debt	<u>(5,965,000)</u>
Net Assets Of Governmental Activities	<u>\$ 1,142,684</u>

The accompanying notes are an integral part of the financial statements.

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CUMBERLAND COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For the Fiscal Year Ended June 30, 2004

CUMBERLAND COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For the Fiscal Year Ended June 30, 2004

	General Fund	Road Fund	Cumberland County Public Properties Corporation Justice Center Construction Fund
REVENUES			
Taxes	\$ 492,764	\$	\$
In Lieu Tax Payments	27,774		
Excess Fees	804		
Licenses and Permits	2,623		
Intergovernmental	130,821	1,025,545	
Charges for Services	10		
Miscellaneous	82,798	13,539	
Interest	11,803	12,362	63,665
Total Revenues	<u>749,397</u>	<u>1,051,446</u>	<u>63,665</u>
EXPENDITURES			
General Government	360,609	9,600	
Protection to Persons and Property	22,824		
General Health and Sanitation	62,858		
Social Services	64,189		
Recreation and Culture	40,133		
Transportation Facilities and Services		3,752	
Roads		1,066,269	
Debt Service	2,088	44,461	209,959
Capital Projects	51,787	2,157	2,654,788
Administration	309,375	67,123	
Total Expenditures	<u>913,863</u>	<u>1,193,362</u>	<u>2,864,747</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(164,466)</u>	<u>(141,916)</u>	<u>(2,801,082)</u>
Other Financing Sources (Uses)			
Proceeds of Bond Issuance			405,000
Discount On Bond Issuance			(8,100)
Cost of Bond Issue			
Accrued Interest Received			803
Financing Obligation Proceeds		45,683	
Transfers From Other Funds	108,562	2,765	13,270
Transfers To Other Funds	(130,000)		(129,715)
Total Other Financing Sources (Uses)	<u>(21,438)</u>	<u>48,448</u>	<u>281,258</u>
Net Change in Fund Balances	(185,904)	(93,468)	(2,519,824)
Fund Balances - Beginning (restated)	388,885	332,948	3,684,542
Fund Balances - Ending	<u>\$ 202,981</u>	<u>\$ 239,480</u>	<u>\$ 1,164,718</u>

The accompanying notes are an integral part of the financial statements.

CUMBERLAND COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For the Fiscal Year Ended June 30, 2004
(Continued)

Non- Major Funds	Total Governmental Funds
\$ 3,221	\$ 495,985
	27,774
	804
	2,623
130,448	1,286,814
11,262	11,272
	96,337
1,755	89,585
<u>146,686</u>	<u>2,011,194</u>
8,829	379,038
246,453	269,277
	62,858
	64,189
	40,133
	3,752
	1,066,269
	256,508
	2,708,732
10,573	387,071
<u>265,855</u>	<u>5,237,827</u>
<u>(119,169)</u>	<u>(3,226,633)</u>
	405,000
	(8,100)
(23,300)	(23,300)
	803
	45,683
154,103	278,700
(18,985)	(278,700)
<u>111,818</u>	<u>420,086</u>
(7,351)	(2,806,547)
54,326	4,460,701
<u>\$ 46,975</u>	<u>\$ 1,654,154</u>

The accompanying notes are an integral part of the financial statements.

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**CUMBERLAND COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For the Fiscal Year Ended June 30, 2004

**CUMBERLAND COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For the Fiscal Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (2,806,547)
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital Outlay	3,244,685
Depreciation Expense	(60,796)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds. These transactions, however, have no effect on net assets.	
Financing Obligation	(45,683)
Bond Issuance	(405,000)
Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.	
Financing Obligations	39,716
Change in Net Assets of Governmental Activities	<u>\$ (33,625)</u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements. However, financial statements of Cumberland County Hospital Association, Inc., a discretely presented component unit, are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Cumberland County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organization provided its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Cumberland County Public Properties Corporation

On September 11, 2001 the Cumberland County Fiscal Court (Fiscal Court) established the Cumberland County Public Properties Corporation (Corporation) for the purpose of the acquisition, construction, and financing of public projects for and on behalf of Cumberland County. The Corporation is composed of the five members of the Fiscal Court, which includes the Cumberland County Judge/Executive and the four magistrates and has perpetual existence. Since the Fiscal Court has complete authority over this entity this makes it a component unit of the county. The financial information for the Cumberland County Public Properties Corporation is blended within Cumberland County's financial statements.

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Discretely Presented Component Unit

The component unit column in the combined financial statements includes the data of the Cumberland County Hospital Association, Inc. It is reported on the Statement of Net Assets and the Statement of Activities in a separate column to emphasize its separateness from the fiscal court's primary government.

Cumberland County Hospital Association, Inc.

The Cumberland County Fiscal Court (Fiscal Court) does not appoint a voting majority of the Cumberland County Hospital Association, Inc. (Association) governing board. However, the Association is headed by the County Judge/Executive and is a legally separate organization set up exclusively to engage in the everyday operations of the Cumberland County Hospital (Hospital). The Fiscal Court owns the Hospital's land, building, and equipment and is financially accountable and legally obligated for the debt of the Hospital. Exclusion of this entity as a component unit of Cumberland County would cause the county's financial statements to be misleading or incomplete. The financial information for the Association is presented discretely within Cumberland County's financial statements. All activities of the Association are accounted for within a governmental fund.

Audited financial statements for the Cumberland County Hospital Association, Inc., a discretely presented component unit, may be requested by contacting the Cumberland County Hospital, P. O. Box 280, Burkesville, Kentucky 42717.

Additional – Cumberland County Elected Officials

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

Kentucky law provides for election of the officials above from the geographic area constituting Cumberland County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Cumberland County did not have any business-type activities during the fiscal year.

The statement of net assets presents the reporting entity's assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental). The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Road Fund - This fund is for road construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Cumberland County Public Properties Corporation Justice Center Construction Fund - This fund accounts for the activities of Cumberland County Public Properties Corporation, a blended component unit of the county. The Cumberland County Public Properties Corporation issued debt to build a Justice Center facility. The Cumberland County Public Properties Corporation entered into a contract, lease, and option with the County and Administrative Office of the Courts (AOC), Commonwealth of Kentucky. The Governor's Office for Local Development does not require the Fiscal Court to report or budget these funds.

The primary government also has the following non-major funds: Jail Fund, Local Government Economic Assistance Fund, Grant Fund, Forestry Fund, Cumberland County Public Properties Corporation Justice Center Bond Fund.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the third Saturday in April following the delinquency date.

Special Revenue Funds

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Grant Fund, and Fire Protection Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Cumberland County Public Properties Corporation Justice Center Construction Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund:

The Cumberland County Public Properties Corporation Justice Center Bond Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Presentation of Component Units

The financial statements present the following major discretely presented component unit: Cumberland County Hospital Association, Inc.

This component unit is presented in a separate column on the Statement of Net Assets and the Statement of Activities to emphasize this organization's separateness from the Fiscal Court's primary government.

D. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

E. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the governmental activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

The County has chosen to report only current infrastructure assets (roads and bridges) placed in service on or after July 1, 2003, as permitted by GASB 34. These infrastructure assets are reported at actual historical cost.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 10,000	20-25
Buildings and Building Improvements	\$ 25,000	10-60
Machinery and Equipment	\$ 5,000	5-20
Vehicles	\$ 5,000	5-20
Infrastructure	\$ 20,000	20-40

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

G. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

H. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Cumberland County Public Properties Corporation (blended component unit) and the Cumberland County Hospital Association, Inc. (discretely presented component unit) Funds are not budgeted by the county treasurer. The Governor's Office for Local Development does not require the Fiscal Court to report or budget these funds.

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Related Organization

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Cumberland County Water District is considered a related organization of the Cumberland County Fiscal Court.

J. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered as joint ventures of the Cumberland County Fiscal Court:

- Cumberland-Burkesville Nursing Home Corporation (with the City of Burkesville)
- Tri-County Animal Control (with Clinton County Fiscal Court and Wayne County Fiscal Court)

K. Jointly Governed Organization

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. Based on these criteria, the following is considered a jointly governed organization of the Cumberland County Fiscal Court: Burkesville-Cumberland Co. Industrial Development Authority.

Note 2. Deposits

The primary government (County) and discretely presented component unit (Hospital) maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met for the County, and as of June 30, 2004, the County's deposits were fully insured and collateralized at a 100% level with collateral of either pledged securities held by the County's agent in the County's name, or provided surety bond which named the primary government or component units as beneficiary/obligee on the bond.

However, as of June 30, 2004, the collateral and the FDIC insurance together for the Hospital's funds did not equal or exceed the amount on deposit, leaving \$1,900,000 of public funds uninsured and unsecured.

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 2. Deposits (Continued)

The Hospital's deposits are categorized below to give an indication of the level of risk assumed by the Hospital as of June 30, 2004.

Component Unit:	<u>Bank Balance</u>
FDIC Insured	\$ 198,264
Collateralized and insured - Hospital	0
Uncollateralized and uninsured - Hospital	<u>1,900,000</u>
Total	<u><u>\$ 2,098,264</u></u>

Note 3. Capital Assets

Primary Government capital asset activity for the year ended June 30, 2004 was as follows:

	<u>Primary Government</u>			
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 575,314	\$ 32,244	\$	607,558
Construction In Progress	<u>1,321,331</u>	<u>2,654,788</u>		<u>3,976,119</u>
Total Capital Assets Not Being Depreciated	<u>1,896,645</u>	<u>2,687,032</u>		<u>4,583,677</u>
Capital Assets, Being Depreciated:				
Buildings	\$ 417,592			417,592
Other Equipment	288,224	60,857		349,081
Vehicles and Equipment	122,831	23,025	(900)	144,956
Infrastructure		<u>474,671</u>		<u>474,671</u>
Total Capital Assets Being Depreciated	<u>828,647</u>	<u>558,553</u>	<u>(900)</u>	<u>1,386,300</u>
Less Accumulated Depreciation For:				
Buildings	(122,320)	(7,019)		(129,339)
Other Equipment	(152,887)	(22,776)		(175,663)
Vehicles and Equipment	(90,209)	(12,577)		(102,786)
Infrastructure		<u>(18,423)</u>		<u>(18,423)</u>
Total Accumulated Depreciation	<u>(365,416)</u>	<u>(60,795)</u>		<u>(426,211)</u>
Total Capital Assets, Being Depreciated, Net	<u>463,231</u>	<u>497,758</u>	<u>(900)</u>	<u>960,089</u>
Government Activities Capital Assets, Net	<u><u>\$ 2,359,876</u></u>	<u><u>\$ 3,184,790</u></u>	<u><u>\$ (900)</u></u>	<u><u>\$ 5,543,766</u></u>

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 9,570
Protection to Persons and Property	4,268
General Health and Sanitation	2,014
Social Services	1,271
Roads, Including Depreciation of General Infrastructure Assets	<u>43,673</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 60,796</u>

Capital asset activity for discretely presented component units for the year ended June 30, 2004 was as follows:

	Discretely Presented Component Unit			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 262,310	\$	\$	\$ 262,310
Construction In Progress	<u>14,380</u>	<u>962</u>		<u>15,342</u>
Total Capital Assets Not Being Depreciated	<u>276,690</u>	<u>962</u>		<u>277,652</u>
Capital Assets, Being Depreciated:				
Buildings	3,496,274	16,192		3,512,466
Equipment	<u>3,046,318</u>	<u>31,634</u>	<u>(40,197)</u>	<u>3,037,755</u>
Total Capital Assets Being Depreciated	<u>6,542,592</u>	<u>47,826</u>	<u>(40,197)</u>	<u>6,550,221</u>
Less Accumulated Depreciation For:				
Buildings and Equipment	<u>(3,668,656)</u>	<u>(204,421)</u>		<u>(3,873,077)</u>
Total Accumulated Depreciation	<u>(3,668,656)</u>	<u>(204,421)</u>		<u>(3,873,077)</u>
Total Capital Assets, Being Depreciated, Net	<u>2,873,936</u>	<u>(156,595)</u>	<u>(40,197)</u>	<u>2,677,144</u>
Capital Assets, Net	<u>\$ 3,150,626</u>	<u>\$ (155,633)</u>	<u>\$ (40,197)</u>	<u>\$ 2,954,796</u>

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the discretely presented major component unit as follows:

Cumberland County Hospital Association, Inc.	<u>\$ 204,421</u>
Total Depreciation Expense - Component Units	<u><u>\$ 204,421</u></u>

Note 4. Long-term Debt

Primary Government:

A. Cumberland County Public Properties Corporation Mortgage Revenue Bonds –Series 2002

On December 23, 2002, the Cumberland County Public Properties Corporation issued \$5,560,000 of mortgage revenue bonds for the purpose of constructing a Justice Center facility. The bonds mature serially through September 1, 2023 and require annual principal payments due on September 1 and semi-annual interest payments at rates ranging from 2.00% to 4.5% due on March 1 and September 1 of each year. Bonds outstanding as of June 30, 2004 were \$5,560,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 200,000	\$ 207,959
2006	205,000	203,909
2007	210,000	199,496
2008	215,000	194,446
2009	220,000	188,596
2010-2014	1,210,000	829,422
2015-2019	1,470,000	572,938
2020-2024	<u>1,830,000</u>	<u>212,908</u>
Totals	<u><u>\$ 5,560,000</u></u>	<u><u>\$ 2,609,674</u></u>

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt (Continued)

B. Cumberland County Public Properties Corporation Mortgage Revenue Bonds –Series 2004

On February 4, 2004, the Cumberland County Public Properties Corporation issued \$405,000 of mortgage revenue bonds to complete the constructing of the Justice Center facility. The bonds mature serially through September 1, 2023 and require annual principal payments due on September 1st and semi-annual interest payments at a rate of 4.2% due on March 1 and September 1 of each year. Bonds outstanding as of June 30, 2004 were \$405,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 10,000	\$ 18,218
2006	15,000	16,275
2007	15,000	15,645
2008	15,000	15,015
2009	15,000	14,385
2010-2014	90,000	61,530
2015-2019	110,000	40,530
2020-2024	135,000	14,805
Totals	<u>\$ 405,000</u>	<u>\$ 196,403</u>

C. Road Grader

On April 24, 2002, the Cumberland County Fiscal Court entered into a capital lease agreement with Caterpillar Financial Services Corporation for the purchase of a road grader for the county road department. The principal was \$107,492 at an effective interest rate of 4.097 percent for a period of five years, with principal and interest paid monthly. The principal outstanding as of June 30, 2004, was \$63,256. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 22,044	\$ 2,533
2006	23,125	1,451
2007	18,087	346
Totals	<u>\$ 63,256</u>	<u>\$ 4,330</u>

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt (Continued)

D. Tractor/Mower

On July 24, 2003, the Cumberland County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program for the purchase of a Tractor/Mower for the County Road Department. The principal was \$45,683 at an effective interest rate of 2.175 percent for a period of two years, with interest and principal paid monthly. The principal outstanding as of June 30, 2004, was \$26,980. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2005	\$ 23,068	\$ 497
2006	3,912	15
Totals	<u>\$ 26,980</u>	<u>\$ 512</u>

E. Changes In Long-Term Debt – Primary Government

Primary Government:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 5,560,000	\$ 405,000	\$	\$ 5,965,000	\$ 210,000
Capital Lease Obligations	84,269		21,013	63,256	22,044
Financing Obligations		45,683	18,703	26,980	23,068
Governmental Activities					
Long-term Liabilities	<u>\$ 5,644,269</u>	<u>\$ 450,683</u>	<u>\$ 39,716</u>	<u>\$ 6,055,236</u>	<u>\$ 255,112</u>

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt (Continued)

Discretely Presented Component Unit:

F. Cumberland County Health Services Corporation Mortgage Revenue Bonds –Series 1992

In 1992, the Cumberland County Hospital Association, Inc. entered into a lease agreement and trust indenture with the Cumberland County Fiscal Court to pay principal and interest on Series 1992 bond issue for the purpose of financing construction of an addition to the hospital. The bonds mature serially through January 1, 2022, and require annual principal and interest payments at rates ranging from 5.25% to 6.75% and are due annually on January 1. The bonds are to be collateralized by all revenues generated by the Cumberland County Hospital. Under the terms of the lease agreement and trust indenture, the Cumberland County Hospital is required to maintain certain deposits with a trustee. The proceeds of the Mortgage Revenue Bonds, Series 1992 were used finance the construction of an addition to the Cumberland County Hospital. Bonds outstanding for the Cumberland County Health Services Corporation as of June 30, 2004 were \$2,219,000. Future principal and interest requirements are:

Fiscal Year Ended	Governmental Activities	
	Principal	Interest
June 30		
2005	\$ 73,000	\$ 110,950
2006	77,000	107,300
2007	81,000	103,450
2008	86,000	99,400
2009	91,000	95,100
2010-2014	543,000	401,500
2015-2019	723,000	248,800
2020-2022	545,000	55,600
Totals	<u>\$ 2,219,000</u>	<u>\$ 1,222,100</u>

G. Changes in Long-term Debt – Discretely Presented Component Unit

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	<u>\$ 2,287,000</u>	<u>\$</u>	<u>\$ 68,000</u>	<u>\$ 2,219,000</u>	<u>\$ 73,000</u>
Business-type Activities					
Long-term Liabilities	<u>\$ 2,287,000</u>	<u>\$ 0</u>	<u>\$ 68,000</u>	<u>\$ 2,219,000</u>	<u>\$ 73,000</u>

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Short-term Debt

Changes In Short-Term Debt

On July 1, 2003, the Cumberland County Fiscal Court participated in the Kentucky Association of Counties Kentucky Advanced Revenue Program by depositing the borrowed funds into their General Fund in the amount of \$327,000, with principal being due in January 2004. The county used the borrowed funds in order to meet current General Fund expenses.

Primary Government:	<u>Beginning</u>			<u>Ending</u>
<u>Governmental Activities:</u>	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
Kentucky Advanced Revenue Program	\$ 0	\$ 327,000	\$ 327,000	\$
Governmental Activities				
Short-term Liabilities	<u>\$ 0</u>	<u>\$ 327,000</u>	<u>\$ 327,000</u>	<u>\$ 0</u>

Note 6. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 7. Interest Included in Debt Service

Debt Service on the Statement of Activities includes the following: Short-term interest paid of \$2,088 for Kentucky Advanced Revenue Program borrowed money. Long-term interest paid of \$1,079 on financing obligations, interest paid of \$3,564 on capital lease obligations, and interest paid of \$209,959 on bonds and notes. This amount also includes cost of bond issuance of \$23,300; discount on bond issuance of \$8,100; and late fees of \$102.

CUMBERLAND COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 8. Insurance

For the fiscal year ended June 30, 2004, Cumberland County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Prior Period Adjustments

The primary governments beginning fund balance of \$4,460,701 has been adjusted to exclude a total \$47 for prior period adjustments. These adjustments include a decrease of \$1 to the Jail Fund, a \$1 increase to the Cumberland County Public Properties Corporation Justice Center Bond Fund, and a \$47 decrease for the Fire Protection Fund. The beginning balance of the Cumberland County Health Services Corporation fund balance has also been adjusted to exclude \$507,403 since this fund is included in the current year as part of the reporting entity of the Cumberland County Hospital Association, Inc. a discretely presented component.

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34, and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change is a decrease of \$3,284,392 for the beginning net asset balance for governmental activities due to capital assets and the effect of long-term debt previously omitted.

CUMBERLAND COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

CUMBERLAND COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 378,200	\$ 397,868	\$ 492,764	\$ 94,896
In Lieu Tax Payments	15,000	27,633	27,774	141
Excess Fees	15,500	16,214	804	(15,410)
Licenses and Permits	1,500	1,525	2,623	1,098
Intergovernmental Revenue	151,850	183,129	130,821	(52,308)
Charges for Services			10	10
Miscellaneous	285,000	303,172	82,798	(220,374)
Interest	5,000	5,000	11,803	6,803
Total Revenues	<u>852,050</u>	<u>934,541</u>	<u>749,397</u>	<u>(185,144)</u>
EXPENDITURES				
General Government	358,493	387,669	360,609	27,060
Protection to Persons and Property	3,100	22,832	22,824	8
General Health and Sanitation	49,500	83,234	62,858	20,376
Social Services	149,047	149,047	64,189	84,858
Recreation and Culture	37,000	47,435	40,133	7,302
Debt Service		329,088	329,088	
Capital Projects	42,399	51,788	51,787	1
Administration	557,600	537,372	309,375	227,997
Total Expenditures	<u>1,197,139</u>	<u>1,608,465</u>	<u>1,240,863</u>	<u>367,602</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(345,089)</u>	<u>(673,924)</u>	<u>(491,466)</u>	<u>182,458</u>
OTHER FINANCING SOURCES (USES)				
Kentucky Advanced Revenue Program		327,000	327,000	
Transfers From Other Funds			108,562	108,562
Transfers To Other Funds	<u>(124,597)</u>	<u>(124,597)</u>	<u>(130,000)</u>	<u>(5,403)</u>
Total Other Financing Sources (Uses)	<u>(124,597)</u>	<u>202,403</u>	<u>305,562</u>	<u>103,159</u>
Net Changes in Fund Balance	(469,686)	(471,521)	(185,904)	285,617
Fund Balance - Beginning	<u>469,686</u>	<u>469,686</u>	<u>388,885</u>	<u>(80,801)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (1,835)</u>	<u>\$ 202,981</u>	<u>\$ 204,816</u>

CUMBERLAND COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 636,888	\$ 979,948	\$ 1,025,545	\$ 45,597
Miscellaneous		13,539	13,539	
Interest	3,000	3,000	12,362	9,362
Total Revenues	639,888	996,487	1,051,446	54,959
EXPENDITURES				
General Government	9,600	9,600	9,600	
Transportation Facilities and Services	6,500	6,500	3,752	2,748
Roads	556,498	1,137,427	1,066,269	71,158
Debt Service	24,600	46,600	44,461	2,139
Capital Projects	4,000	4,000	2,157	1,843
Administration	143,525	125,308	67,123	58,185
Total Expenditures	744,723	1,329,435	1,193,362	136,073
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(104,835)	(332,948)	(141,916)	191,032
OTHER FINANCING SOURCES (USES)				
Financing Obligations Proceeds			45,683	45,683
Transfers From Other Funds			2,765	2,765
Total Other Financing Sources (Uses)			48,448	48,448
Net Changes in Fund Balance	(104,835)	(332,948)	(93,468)	239,480
Fund Balance - Beginning	104,835	332,948	332,948	
Fund Balance - Ending	\$ 0	\$ 0	\$ 239,480	\$ 239,480

CUMBERLAND COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Cumberland County Public Properties Corporation Justice Center Construction and Bond Funds.

The State Local Finance Officer does not require the Cumberland County Public Properties Corporation Justice Center Construction and Bond Funds to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds and these transfers are budgeted in the governmental funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of Required Supplementary Information to the Statement of Revenues, Expenditures, and Changes in Fund Balances

General fund debt service expenditures and borrowed funds reported on the General Fund Budgetary Comparison Schedule do not agree to the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds-Modified Cash Basis because of short-term borrowing of \$327,000. The \$327,000 represents principal and was borrowed and repaid during the 2004 fiscal year and has a zero effect on the fund balance of the General Fund. The Governmental Accounting Standards Board does not permit the recognition of short-term revenue anticipation borrowing on the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds-Modified Cash Basis.

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CUMBERLAND COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

CUMBERLAND COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

	Jail Fund	Local Government Economic Assistance Fund	Grant Fund	Fire Protection Fund	Cumberland County Public Properties Corporation Justice Center Bond Fund	Total Non-Major Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 12,446	\$ 20,860	\$ 1,649	\$ 11,211	\$ 809	\$ 46,975
Total Assets	<u>\$ 12,446</u>	<u>\$ 20,860</u>	<u>\$ 1,649</u>	<u>\$ 11,211</u>	<u>\$ 809</u>	<u>\$ 46,975</u>
FUND BALANCES						
Unreserved:						
Special Revenue Funds	\$ 12,446	\$ 20,860	\$ 1,649	\$ 11,211	\$	\$ 46,166
Debt Service Fund					809	809
Total Fund Balances	<u>\$ 12,446</u>	<u>\$ 20,860</u>	<u>\$ 1,649</u>	<u>\$ 11,211</u>	<u>\$ 809</u>	<u>\$ 46,975</u>

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CUMBERLAND COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

CUMBERLAND COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Special Revenue Funds			
	Jail Fund	Local Government Economic Assistance Fund	Grant Fund	Fire Protection Fund
REVENUES				
Taxes	\$	\$	\$	\$ 3,221
Intergovernmental	39,850	17,577	73,021	
Charges for Services	11,262			
Interest	494	692		285
Total Revenues	<u>51,606</u>	<u>18,269</u>	<u>73,021</u>	<u>3,506</u>
EXPENDITURES				
General Government		8,829		
Protection to Persons and Property	168,752	6,641	68,422	2,638
Administration	9,660	913		
Total Expenditures	<u>178,412</u>	<u>16,383</u>	<u>68,422</u>	<u>2,638</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(126,806)</u>	<u>1,886</u>	<u>4,599</u>	<u>868</u>
OTHER FINANCING SOURCES (USES)				
Cost of Bond Issue				
Transfers From Other Funds	130,000			
Transfers To Other Funds			(5,715)	
Total Other Financing Sources (Uses)	<u>130,000</u>		<u>(5,715)</u>	
Net Change in Fund Balances	3,194	1,886	(1,116)	868
Fund Balances - Beginning	9,252	18,974	2,765	10,343
Fund Balances - Ending	<u>\$ 12,446</u>	<u>\$ 20,860</u>	<u>\$ 1,649</u>	<u>\$ 11,211</u>

CUMBERLAND COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004
(Continued)

Debt Service Fund	
Cumberland County Public Properties Corporation Justice Center Bond Fund	Total Non-Major Governmental Funds
\$	\$ 3,221
	130,448
	11,262
284	1,755
284	146,686
	8,829
	246,453
	10,573
	265,855
284	(119,169)
(23,300)	(23,300)
24,103	154,103
(13,270)	(18,985)
(12,467)	111,818
(12,183)	(7,351)
12,992	54,326
\$ 809	\$ 46,975

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tim Hicks, Cumberland County Judge/Executive
Members of the Cumberland County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Cumberland County, Kentucky as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements and have issued our report thereon dated March 30, 2005. Cumberland County prepares its financial statements in accordance with the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cumberland County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Cumberland County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 30, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

CUMBERLAND COUNTY FISCAL COURT

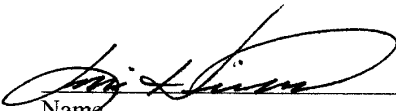
For The Year Ended June 30, 2004

Appendix A

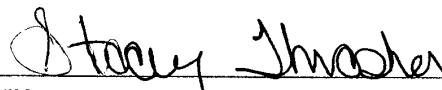
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
CUMBERLAND COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Cumberland County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer

